

104TH CONGRESS
1ST SESSION

S. 488

To amend the Internal Revenue Code of 1986 to impose a flat tax only on the earned income of individuals and the business taxable income of corporations, and for other purposes.

IN THE SENATE OF THE UNITED STATES

MARCH 2 (legislative day, FEBRUARY 22), 1995

Mr. SPECTER introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to impose a flat tax only on the earned income of individuals and the business taxable income of corporations, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. INDIVIDUALS TAXED ONLY ON EARNED IN-**
4 **COME.**

5 (a) IN GENERAL.—Section 1 of the Internal Revenue
6 Code of 1986 is amended to read as follows:

1 **“SECTION 1. TAX IMPOSED.**

2 “(a) IMPOSITION OF TAX.—There is hereby imposed
3 on the income of every individual a tax equal to 20 percent
4 of the excess (if any) of—

5 “(1) the taxable earned income received or ac-
6 crued during the taxable year, over

7 “(2) the standard deduction (as defined in sec-
8 tion 63) for such taxable year.

9 “(b) TAXABLE EARNED INCOME.—For purposes of
10 this section, the term ‘taxable earned income’ means the
11 excess (if any) of earned income (as defined in section
12 911(d)(2)) over the foreign earned income (as defined in
13 section 911(b)(1)).”

14 (b) INCREASE IN STANDARD DEDUCTION.—Section
15 63 of such Code is amended to read as follows:

16 **“SEC. 63. STANDARD DEDUCTION.**

17 “(a) IN GENERAL.—For purposes of this subtitle, the
18 term ‘standard deduction’ means the sum of—

19 “(1) the basic standard deduction, plus

20 “(2) the additional standard deduction.

21 “(b) BASIC STANDARD DEDUCTION.—For purposes
22 of subsection (a), the basic standard deduction is—

23 “(1) \$16,500 in the case of—

24 “(A) a joint return, and

25 “(B) a surviving spouse (as defined in sec-
26 tion 2(a)),

1 “(2) \$14,000 in the case of a head of household
2 (as defined in section 2(b)), and

3 “(3) \$9,500 in the case of an individual—

4 “(A) who is not married and who is not a
5 surviving spouse or head of household, or

6 “(B) who is a married individual filing a
7 separate return.

8 “(c) ADDITIONAL STANDARD DEDUCTION.—For pur-
9 poses of subsection (a), the additional standard deduction
10 is \$4,500 for each dependent (as defined in section 152)
11 described in section 151(c)(1) for the taxable year.

12 “(d) INFLATION ADJUSTMENT.—

13 “(1) IN GENERAL.—In the case of any taxable
14 year beginning in a calendar year after 1995, each
15 dollar amount contained in subsections (b) and (c)
16 shall be increased by an amount equal to—

17 “(A) such dollar amount, multiplied by

18 “(B) the cost-of-living adjustment under
19 section 1(f)(3) for the calendar year in which
20 the taxable year begins, determined by sub-
21 stituting ‘calendar year 1994’ for ‘calendar year
22 1992’ in subparagraph (B) of such section.

23 “(2) ROUNDING.—If any increase determined
24 under paragraph (1) is not a multiple of \$50, such

1 amount shall be rounded to the next lowest multiple
2 of \$50.”

3 **SEC. 2. INCOME TAX DEDUCTION FOR CASH CHARITABLE**
4 **CONTRIBUTIONS.**

5 (a) IN GENERAL.—Subsection (a) of section 170 of
6 the Internal Revenue Code of 1986 (relating to charitable,
7 etc., contributions and gifts) is amended—

8 (1) by striking paragraph (1) and inserting the
9 following new paragraph:

10 “(1) GENERAL RULE.—There shall be allowed
11 as a deduction any charitable contribution (as de-
12 fined in subsection (c)) not to exceed \$2,500
13 (\$1,250, in the case of a married individual filing a
14 separate return), payment of which is made within
15 the taxable year.”, and

16 (2) by striking paragraph (3).

17 (b) CONFORMING AMENDMENTS.—

18 (1) Section 170(b) of the Internal Revenue
19 Code of 1986 is amended by adding at the end the
20 following new paragraph:

21 “(3) TERMINATION OF SUBSECTION.—This sub-
22 section shall not apply to taxable years beginning
23 after December 31, 1995.”

(4) Section 170(f) of such Code is amended by striking paragraphs (1) through (7) and by redesignating paragraphs (8) and (9) as paragraphs (1) and (2), respectively.

12 **SEC. 3. LIMITATION OF HOME MORTGAGE DEDUCTION TO**
13 **ACQUISITION INDEBTEDNESS.**

(1) by striking subparagraphs (A), (C), and (D)
and inserting before subparagraph (B) the following
new subparagraph:

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1 the taxpayer shall be made as of the time the
2 interest is accrued.”, and

3 (2) by striking “\$1,000,000” each place it ap-
4 pears and “\$500,000” in subparagraph (B)(ii) and
5 inserting “\$100,000” and “\$50,000”, respectively.

6 **SEC. 4. MODIFICATION OF TAX ON BUSINESS ACTIVITIES.**

7 Section 11 of the Internal Revenue Code of 1986 (re-
8 lating to tax imposed on corporations) is amended to read
9 as follows:

10 **“SEC. 11. TAX IMPOSED ON BUSINESS ACTIVITIES.**

11 “(a) TAX IMPOSED.—There is hereby imposed on
12 every person engaged in a business activity a tax equal
13 to 20 percent of the business taxable income of such per-
14 son.

15 “(b) LIABILITY FOR TAX.—The tax imposed by this
16 section shall be paid by the person engaged in the business
17 activity, whether such person is an individual, partnership,
18 corporation, or otherwise.

19 “(c) BUSINESS TAXABLE INCOME.—

20 “(1) IN GENERAL.—For purposes of this sec-
21 tion, the term ‘business taxable income’ means gross
22 active income reduced by the deductions specified in
23 subsection (d).

1 “(2) GROSS ACTIVE INCOME.—For purposes of
2 paragraph (1), the term ‘gross active income’ means
3 gross income other than investment income.

4 “(d) DEDUCTIONS.—

5 “(1) IN GENERAL.—The deductions specified in
6 this subsection are—

7 “(A) the cost of business inputs for the
8 business activity,

9 “(B) the compensation (including contribu-
10 tions to qualified retirement plans but not in-
11 cluding other fringe benefits) paid for employ-
12 ees performing services in such activity, and

13 “(C) the cost of tangible personal and real
14 property used in such activity.

15 “(2) BUSINESS INPUTS.—For purposes of sub-
16 paragraph (A), the term ‘cost of business inputs’
17 means—

18 “(A) the actual amount paid for goods,
19 services, and materials, whether or not resold
20 during the taxable year,

21 “(B) the fair market value of business in-
22 puts brought into the United States, and

23 “(C) the actual cost, if reasonable, of trav-
24 el and entertainment expenses for business pur-
25 poses.

1 Such term shall not include purchases of goods and
2 services provided to employees or owners.

3 “(e) CARRYOVER OF EXCESS DEDUCTIONS.—

4 “(1) IN GENERAL.—If the aggregate deductions
5 for any taxable year exceed the gross active income
6 for such taxable year, the amount of the deductions
7 specified in subsection (d) for the succeeding taxable
8 year (determined without regard to this subsection)
9 shall be increased by the sum of—

10 “(A) such excess, plus

11 “(B) the product of such excess and the 3-
12 month Treasury rate for the last month of such
13 taxable year.

14 “(2) 3-MONTH TREASURY RATE.—For purposes
15 of paragraph (1), the 3-month Treasury rate is the
16 rate determined by the Secretary based on the aver-
17 age market yield (during any 1-month period se-
18 lected by the Secretary and ending in the calendar
19 month in which the determination is made) on out-
20 standing marketable obligations of the United States
21 with remaining periods to maturity of 3 months or
22 less.”

1 **SEC. 5. EFFECTIVE DATE.**

2 The amendments made by this Act shall apply to tax-
3 able years beginning after December 31, 1995.

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